

Message Text

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PAGE 01 OTTAWA 01357 01 OF 02 171736Z
ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 AID-05 EB-08 TRSE-00 SS-15
STR-07 OMB-01 CEA-01 CIAE-00 COME-00 FRB-01
INR-10 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01
DODE-00 NSCE-00 SSO-00 USIE-00 INRE-00 PA-02 L-03
H-02 AGRE-00 DOE-11 SOE-02 DOEE-00 /098 W
-----030077 172028Z /43

O 171713Z MAR 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC IMMEDIATE 6700
INFO AMCONSUL CALGARY
AMCONSUL HALIFAX
AMCONSUL MONTREAL
AMCONSUL QUEBEC
AMCONSUL TORONTO
AMCONSUL VANCOUVER
AMCONSUL WINNIPEG

UNCLAS SECTION 01 OF 02 OTTAWA 01357

DEPT. PASS TREASURY

E.O. 11652:N/A
TAGS: ECON, EFIN, CA
SUBJECT: ECONOMIC AND FINANCIAL DEVELOPMENTS: WEEK OF
MARCH 7-14, 1978.

REF: OTTAWA 1156

1. SUMMARY. BANK RATE WAS INCREASED TO 8 PERCENT EVENING
OF MARCH 8 TO HELP STABILIZE CANADIAN DOLLAR EXCHANGE RATE.
PRIME RATE AND OTHER RATES WENT UP PROPORTIONATELY. EXCHANGE
RATE WENT UP ON NEWS, BUT THEN FELL BACK SOMEWHAT. CURRENT
ACCOUNT REGISTERED CDOLS 4.24 BILLION DEFICIT FOR 1977,
LITTLE CHANGED FROM 1976. FEDERAL GOVERNMENT'S THREE PART
U.S. DOLS 750 MILLION BOND ISSUE IN NEW YORK WAS REGISTERED
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PAGE 02 OTTAWA 01357 01 OF 02 171736Z

WITH SEC. THE ECONOMIC COUNCIL WILL TAKE ON RESPONSIBILITY
FOR MONITORING WAGES AND PRICES IN THE POST CONTROL PERIOD.
UNEMPLOYMENT RATE IN FEBRUARY SEASONALLY ADJUSTED WAS 8.3
PERCENT, UNCHANGED FROM JANUARY. CONSUMER PRICES WERE UP
0.7 PERCENT IN FEBRUARY, GIVING YEAR-OVER-YEAR INCREASE OF
8.7 PERCENT. ONTARIO INTRODUCED CONSERVATIVE BUDGET. END
SUMMARY.

2. BANK RATE (I.E., DISCOUNT RATE) WAS INCREASED ONE HALF OF ONE PERCENT TO 8.0 PERCENT EVENING OF MARCH 8 TO HELP DEFEND FALTERING CANADIAN DOLLAR. (SEE OTTAWA 1233 FOR ANALYSIS) EXCHANGE RATE STRENGTHENED AT OPENING MARCH 9 TO U.S.DOLS 0.8892, UP FROM PREVIOUS CLOSE OF 0.8868, BUT THEN FELL BACK DURING MORNING OF MARCH 9 TO 0.8882. HOWEVER, RATE STRENGTHENED AGAIN WITH ANNOUNCEMENT IN LATE MORNING THAT FOURTH QUARTER CURRENT ACCOUNT DEFICIT WAS ONLY CDOLS 692 MILLION, DOWN FROM 1.22 BILLION IN THE THIRD QUARTER (OTTAWA 1286). RATE CLOSED MARCH 9 AT 0.8915. THIS PERFORMANCE OF EXCHANGE RATE GAVE SUPPORT TO CRITICS WHO MAINTAIN THAT FUNDAMENTALS OF ECONOMIC PERFORMANCE HAVE GREATER EFFECT ON EXCHANGE MARKET PSYCHOLOGY THAN SMALL CHANGES IN ADMINISTERED INTEREST RATES. CANADIAN DOLLAR ENDED THE WEEK AT 0.8909.

3. OTHER INTEREST RATES FOLLOWED BANK RATE UP. PRIME RATE INCREASED 0.5 PERCENT BY CHARTERED BANKS FROM 8.25 TO 8.75 PERCENT. SHORT TERM INTEREST RATE ROSE ABOUT 35 BASIS POINTS. RATES ON COMMERCIAL PAPER ROSE 12.5 TO 20 BASIS POINTS DEPENDING ON TERM (30 TO 89 DAY PAPER WAS UP 20 BASIS POINTS TO 7.35 PERCENT). LONG TERM BOND PRICES WERE DOWN 1/8 AND MID TERMS WERE DOWN 1/4 TO 3/8. RATES PAID OUT BY BANKS ALSO INCREASED: MOST BANKS ANNOUNCED INTEREST RATE PAID NON-CHECKABLE SAVINGS ACCOUNTS WILL UNCLASSIFIED

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PAGE 03 OTTAWA 01357 01 OF 02 171736Z

RISE 0.5 PERCENT TO 6.25 PERCENT BEGINNING IN APRIL. RATES PAID ON TERM DEPOSITS AND CDS WILL RISE BY THE SAME AMOUNT.

4. POST CONTROL PROGRAM. THE ECONOMIC COUNCIL OF CANADA (ECC) WILL BE GIVEN THE RESPONSIBILITY TO MONITOR WAGES AND PRICES IN THE POST CONTROL PERIOD. DETAILS OF WORK TO BE DONE BY THE ECC HAVE YET TO BE ANNOUNCED.

5. ECONOMIC INDICATORS. UNEMPLOYMENT SEASONALLY ADJUSTED (SA) IN FEBRUARY WAS 8.3 PERCENT, UNCHANGED FROM JANUARY. UNADJUSTED (NSA) UNEMPLOYMENT RATE WAS 9.5 PERCENT AND TOTALLED OVER 1 MILLION FOR THE FIRST TIME. THE EMPLOYMENT/POPULATION RATIO (SA) WAS 56.8, UP 0.3 PERCENT, WHILE THE PARTICIPATION RATE (SA) WAS UP 0.4 TO 62.0 PERCENT. (SEE SEPTEL FOR DETAILS.)

---CONSUMER PRICES (NSA) WERE UP 0.7 PERCENT IN FEBRUARY AFTER 0.4 PERCENT RISE IN JANUARY, MOSTLY DUE TO HIGH FOOD PRICES, ESPECIALLY IMPORTED WINTER FRUITS AND VEGETABLES. HOWEVER, THE 12 MONTH INCREASE IN THE CPI (NSA) TO FEBRUARY WAS 8.7 PERCENT, DOWN FROM 9.0 PERCENT IN JANUARY. CPI (SA) ROSE 0.5 PERCENT IN FEBRUARY. (SEE SEPTEL FOR DETAILS.)

..'
---HOUSING STARTS WERE 275,700 UNITS IN FEBRUARY (ANNUAL RATE, SA), DOWN 7.7 PERCENT FROM JANUARY.

---NEW ORDERS. PURCHASING AGENTS REPORTED INCREASES IN NEW ORDERS AND PRODUCTION IN FEBRUARY COMPARED WITH JANUARY. INCREASED NEW ORDERS WERE REPORTED BY 45 PERCENT OF RESPONDENTS, DECREASES BY 14 PERCENT. PRODUCTION INCREASES WERE REPORTED BY 31 PERCENT, DECREASES BY 19 PERCENT.

---BUSINESS CONFIDENCE REMAINS FAIRLY PESSIMISTIC ACCORDING TO A SURVEY BY THE BANK OF MONTREAL. 56 PERCENT OF RESPONDENTS SEE BUSINESS AS BAD OR WORSENING, LITTLE UNCLASSIFIED

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PAGE 04 OTTAWA 01357 01 OF 02 171736Z

CHANGED FROM SURVEY RESULTS A YEAR AGO. 40 PERCENT OF RESPONDENTS SAID DEVALUATION HAD HELPED THEIR COMPANY'S COMPETITIVE POSITION. OF THESE, MOST AFFIRMATIVE RESPONSES CAME FROM THE WEST (50 PERCENT IN B.C.) AND LEAST CAME FROM

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PAGE 01 OTTAWA 01357 02 OF 02 172023Z
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UNCLAS SECTION 02 OF 02 OTTAWA 01357

THE ATLANTIC PROVINCES (ONLY 20 PERCENT). THIS SUGGESTS IMPACT OF DEVALUATION HAS MARKED DIFFERENCES WITHIN CANADA AND MAY SERVE TO REINFORCE REGIONAL ECONOMIC DISPARITIES.

---SALES OF HOUSEHOLD APPLIANCES REMAINED WEAK IN JANUARY, INDICATING LITTLE IMPROVEMENT IN CONSUMER CONFIDENCE. APPLIANCE SALES ARE DOWN 14 TO 21 PERCENT FROM A YEAR AGO.

6. FEDERAL GOVERNMENT FINANCE. -- GOC ANNOUNCED SOME DETAILS OF ITS U.S. DOLS 750 MILLION BOND ISSUE IN NEW YORK AS ISSUE WAS REGISTERED WITH SEC. (SEE OTTAWA 884 AND 1117). ISSUE WILL BE IN THREE PARTS, EACH OF DOLS 250 MILLION, WITH TERMS RUNNING TO 1983, 1985, AND 1998 RESPECTIVELY. COUPON, PRICING, AND YIELD WILL BE ANNOUNCED LATER.

---GOC ANNOUNCED TERMS OF DOMESTIC CDOLS 550 MILLION BOND UNCLASSIFIED

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PAGE 02 OTTAWA 01357 02 OF 02 172023Z

ISSUE TO BE DATED APRIL 1. ISSUE WILL BE OF 1981, 1983, AND 2001, PRICED TO YIELD 8.38, 8.70, AND 9.50 RESPECTIVELY. BANK OF CANADA WILL TAKE 200 MILLION. GOC HAS NOW ABOUT COMPLETED ITS FINANCING OF CDOLS 8.5 BILLION FOR CURRENT FISCAL YEAR ENDING MARCH 31. WITH DEFICIT AND FINANCING REQUIREMENTS RISING, GOC DOMESTIC BOND FINANCING OVER COMING YEAR IS APT TO BE HEAVY. HOWEVER, THERE IS NO INDICATION AS YET OF ANY CROWDING OUT. PRIVATE SECTOR DEMAND IS NOT STRONG, MORTGAGE FINANCING CONTINUES TO DECLINE, AND THE CALENDAR OF NEW DOMESTIC ISSUES REMAINS RELATIVELY LIGHT.

7. PROVINCIAL DEVELOPMENTS. ONTARIO AND SASKATCHEWAN BUDGETS RECENTLY ANNOUNCED WILL DO LITTLE TO ADD THRUST TO THE ECONOMY. LARGE ONTARIO BUDGET (SEE TORONTO 395) PROJECTS ONLY 7 PERCENT INCREASE IN SPENDING AND LITTLE CHANGE IN DEFICIT IN NOMINAL TERMS. SMALLER SASKATCHEWAN BUDGET (SEE WINNIPEG 129) WAS MORE EXPANSIVE, BUT DEFICIT EXPECTED ONLY TO CANCEL OUT SURPLUSES PREVIOUSLY BUILT UP. OTHER PROVINCES CONTINUE TO MAINTAIN GENERALLY CONSERVATIVE FISCAL STANCE. NEWFOUNDLAND THRONE SPEECH ANNOUNCED CONTINUING SPENDING RESTRAINTS GIVEN THAT PROVINCE'S EXISTING DEBT AND PRECARIOUS CREDIT RATING. AT THE OTHER END OF THE PROVINCIAL INCOME SCALE, ALBERTA ANNOUNCED SUSPENSION OF ITS WEEKLY AUCTION OF TREASURY BILLS, AS IT HAS RECENTLY BEEN BUYING MOST OF ITS OWN BILLS WITH FUNDS FROM ITS HERITAGE FUND WHICH NOW HAS ASSETS OF NEARLY CDOLS 3 BILLION.

8. FEDERAL AGRICULTURE MINISTER WHELAN ANNOUNCED MARCH 7 THAT GRAIN HANDLING FACILITIES AT PRINCE RUPERT, BRITISH COLUMBIA, ARE TO BE UPGRADED AT COST OF 11.5 MILLION TO IMPROVE WESTERN GRAIN EXPORTS TO THE PACIFIC. UPGRADING OF UNCLASSIFIED

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PAGE 03 OTTAWA 01357 02 OF 02 172023Z

PRINCE RUPERT WAS RECOMMENDED BY HALL COMMISSION REPORT ON WESTERN TRANSPORTATION AND PROMOTED STRONGLY BY WESTERN PREMIERS AT FEBRUARY FIRST MINISTERS' MEETING.

9. THE FEDERAL DEPARTMENT OF REGIONAL ECONOMIC EXPANSION (DREE) PUBLISHED A STUDY ENTITLED "ECONOMIC CIRCUMSTANCES AND MEDIUM TERM PROSPECTS BY PROVINCE". STUDY SAYS UNEMPLOYMENT WILL RISE IN SEVERAL PROVINCES BEFORE IT FALLS, AND PRIVATE INVESTMENT IN QUEBEC HAS BEEN INSUFFICIENT TO KEEP PRODUCTION COMPETITIVE. COPIES POUCHED TO WASHINGTON. ENDERS

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